World Chronicle

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for Economic and Social Affairs
United Nations

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GLOBAL FINANCIAL INTEGRATION

"You cannot build a stable economy on an unstable society", said Under-Secretary-General for Economic and Social Affairs Nitin Desai. He discussed the significance of the recently held meeting, sponsored by the UN Economic and Social Council (ECOSOC), is promoting financial stability in worldwide markets. It was attended by leaders of finance, foreign affairs and development cooperation ministries with the aim of bringing development to the financial agenda.

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ANNOUNCER: From United Nations Headquarters in New York, this is **World Chronicle**, an unedited interview programme about major global issues.

Here now to introduce our guest is the host of today's World Chronicle.

LITTLEJOHNS: I'm Michael Littlejohns, and this is **World Chronicle.**

Leaders of finance, foreign affairs and development cooperation ministries -- a combination rarely found in the same conference room -- met recently under the auspices of the United Nations Economic and Social Council or ECOSOC. They assessed the impact of global financial integration and discussed ways of promoting financial stability. The meeting was particularly timely in the light of recent financial upheavals in East Asia.

Our guest today was a participant in this landmark encounter. He is Nitin Desai, Under-Secretary -General for Economic and Social Affairs. Joining me to talk with Mr. Desai are James Bone from *The Times of London* and Anne Penketh of *Agence France-Presse/AFP.*

Mr. Desai welcome to **World Chronicle.**

LITTLEJOHNS: Mr. Under-Secretary-General, why is it taking more than 50 years for this idea, which seems like a pretty good one, to have developed and have been executed.

DESAI: Well, because, I think, in some ways, the two sets of institutions have their own functions and purposes and I am ...

LITTLEJOHNS: Why do you say two sets of institutions ...

DESAI: The Breton Woods Institutions, which I say ...

LITTLEJOHNS: The financial bodies ...

DESAI: The two financial bodies in the ...

LITTLEJOHNS: The World Bank and the International Monetary Fund.

DESAI: That is right, and the United Nations New York. But we did have a lot of contact at the Secretariat level. The two heads of the Washington institutions have been regular visitors to ECOSOC and, at the Secretariat level, there has always been extensive contact. What was unique about this was the contact at the inter-governmental policy-making level. And it was a meeting of the Economic and Social Council, which invited people who normally participate in the Washington processes. So it's not really a joint meeting, it is an ECOSOC meeting but the participants were drawn mainly from people who normally go to the Washington meetings.

LITTLEJOHNS: But if these guys wanted to meet, at the financial and on the foreign affairs side, they could do it without the intervention of the UN, could they not?

DESAI: It could, but I think the advantage here was not simply a question of getting the same side cast of characters to meet in a different environment, but there was

some differences. I think what the meeting did was to bring development into the financial agenda – not that it is missing in Washington. But in some ways, the concerns which shaped discussion here are much more long-term developmentary concerns – concerns about equity between countries, concerns about symmetry of influence on global processes – and, I believe, that is what the ECOSOC meeting had to contribute to this discussion.

LITTLEJOHNS: This proposal was endorsed by the United Nations General Assembly ...

DESAI: That's right.

LITTLEJOHNS: Who actually proposed it in the General Assembly?

DESAI: Well, the initial proposal came from the United States and, of course, it was supported by the others and it was a unanimous resolution and it was partly a reflection of a lot of discussion that has been going on, not just in the UN but in the G7 process and elsewhere, about the need to give the global economic system a degree of political direction and of strengthening links between the Bretonwoods Institutions and the UN institutions. So that's what the U.S. proposed.

LITTLEJOHNS: And did the United States follow through at the high level? I mean, was the Secretary of State and was the Secretary of Treasury -- were these people present?

DESAI: No, the United States was represented there by the Ambassador for Economic Affairs here and by a senior official from the Treasury in Washington. But, of course, the Secretary of State, as you know, was not there.

PENKETH: When you say, 'I have to give it a greater political direction' what exactly do you have in mind? I mean that would send the loan bells ringing probably through the markets.

DESAI: Okay, let's use the word 'policy direction' -- not necessarily political direction. What I mean by this is that, increasingly, we are getting into a regime where what we decide at the international level needs to be implemented voluntarily by countries. That it's not like the old fixed exchange rate system where there was a global system which had to be followed as a rule by others. Increasingly, you're dependent on governments doing things which are desirable on their own, so to speak, as part of a globally-agreed policy consensus. If you want that, you need a process in which they have a sense of commitment and policies about which they have ownership. That's what I meant by political direction. Not so much a question of politicizing decisions but ensuring that what comes out as a policy is something in which the people who are to implement it -- the national administrations – have a

sense of ownership. All that has changed.

BONE: One of the things that seems to be going on here is that you have two bodies – you have the United Nations and you have the Bretonwoods Institutions, the International Monetary Fund of the World Bank. There's a different equation of power in each of those two groups, clusters of bodies, causing the Washington-based bodies – the IMF and the World Bank, under which countries are very much more powerful and is basically treasury ministers who are involved in running the policy there and to some extent, the poor countries resent that because they are the subject of the policies that the IMF and the World Bank impose on them. And at the UN, of course, you have the Foreign Ministers and you have a normal clout for the developing countries and really, there's been a shift in economic policy and international policy from the UN down to Washington over the last five or ten years. And isn't this an attempt by you to redress that balance a little bit and bring some action back to New York?

DESAI: I would say that on developers probably also be in the other rebound. For instance today, the types of issues that do dominate global discussions on development like sustainable development or human development, or things which came out of a UN process, I would argue that, in fact, a UN process in which all countries participate more or less on an equal footing, is a process which is designed to give countries a sense of ownership and commitment about what comes out and from today's world, when what we are trying to decide at the national level has to be implemented voluntarily by countries, this is a very valuable characteristic and I think, it is being increasingly recognized and therefore, there's a much greater willingness for the experiment of the sort that we had on Saturday now than we are having the case ten years ago.

BONE: Is this going to become some kind of process then?

DESAI: No, at the moment the mandate was just for one meeting. We have another process going which is closely linked and that is, the General Assembly has decided to launch a process of some form of global discussion on the issue of finance and development. They started in the General Assembly last Fall and it's something that it has committed essentially to some type of event or process or occasion before the year 2000.

BONE: You have a great decline in oversea development assistance particularly relative to private investment around the world and the focus has moved from official development aid towards managing free markets. That's really the ball game now and it's widely accepted almost everywhere in the world that that's what's happened. So what do you have in mind in terms of managing free markets? What – connect – process contribute?

DESAI: Three or four things were stressed in this discussion. First, you need an institutional structure for managing the markets. We do not have that institutional structure. One of the points that I believe we have to address is how are we going to get that institutional structure? What is the mechanism for getting to it? Second, that within those framework of institutions which should establish monitoring standards, contingency arrangements, a provided platform for a dialogue on national and international policy, we will have to worry about symmetry and equity between countries because you're not going to have to prolong a situation for a large number of countries who are increasingly more influential in the global economy are going to let somebody else decide what they ought to be doing. They are going to demand influence – that's one thing we have to worry about. Second, safety nets for the vulnerable. You cannot build a stable economy in an unstable society and one of the things that we will have to worry about in these terms of management is: what will be the shape of the safety nets? How do we commit ourselves to this? And the third thing, if you really want to keep the developing world fully engaged in this, you will need assistance which is capable of handling short-term economic crisis without unduly compromising long-term developmental aids including things like investing in education, health, environmental management, and so on. So for all of these reasons, it's not as if managing markets means there's no role for public policy. I think there's been a certain diversity – that there is a sense now to recognize that 'yes, we need to identify a role for public policy and I believe the UN has done a lot of work in this area in the past five years. And this is just to further development of that line of work in the US.

PENKETH: So the UN sort of influenced the debate in some sense, because in terms of the financial contribution, the UN is – represents peanuts, doesn't it, in the overall?

DESAI: It's modest ... I wouldn't describe it as peanuts. But the ... yes, I think, our main valuable contribution should be in terms of influencing the debate in providing a platform for a policy consensus. As I mentioned, one of the key elements of global economic management is going to be some degree of compatibility in national policies ... a national macro-economic objective. We do not have any mechanism like fixed exchange rate which enforces that. We can only come through some type of voluntary acceptance of global edge. I think the UN is well-placed in trying to get an agreement on what constitutes a good sensible national macro-economic policy. It cannot take the place of the systems structures you need for monitoring, for evaluating of what is exactly happening, for surveillance if you like of the monetary system, and so on. But it can provide a framework for consensus.

LITTLEJOHNS: Mr. Desai, in practical terms, what actually came out of this first

meeting of its kind? Were there recommendations that will go to ECOSOC and, ultimately, to the General Assembly.

DESAI: No, there's a chairman somewhere in which – we never intended for this to be a negotiating session. It was essentially a session where I'd see three basic strands of discussion came together. One was what I will describe as a classically financial discussion worrying about monitoring, surveillance, contingency arrangements, data reporting, data standards, transparency, etc. – the sort of arguments we've heard continuously in the discussions on the crisis now. The second was from the ....

LITTLEJOHNS: You mean the Asian crisis?

DESAI: About the Asian crisis. Earlier when we had the Mexican crisis the same arguments were heard. The second strand came from the finance ministries of the developing world where the focus was on issues about symmetry, about worrying about vulnerable groups, long-term development. And the third strand, was the development ministers who said these all: this is fine global financial integration; it's fine – managing crisis is important but we have to essentially build all these around global developmental lands most particularly, poverty eradication, social development and environmental protection. So these are the three strands which came together and that was what, I think, was exciting about this meeting.

PENKETH: So what sort of follow-up then is in position? Are you going to meet again in a few months time with the same players?

DESAI: There were some references to the possibility of meeting again where I hope that this helps to shape the discussions which the General Assembly has already launched on the process on financial development. I hope it helps also to shape the discussions in the ECOSOC, for instance, when we take up the issue of market access and let us see what comes out of this. At this point, what we were concerned with is to make people, who have otherwise operated in separate spheres, a little more comfortable now creating together. I think we succeeded in that.

BONE: Some financiers, notably George Soros who is financier/philosopher almost, have called for new international financial institutions to regulate things like banking transparency, not that the central banks don't provide sufficient data some of the currency traders feel to be able to assess their countries' financial strength. What do you feel about these type of proposals coming from the private sector.

DESAI: Actually, there's much more explicit discussion now not necessarily of new institutions but of a new architecture. That's the term that's being used.

And the new architecture does mean you're going to do a lot of – it may be the same house, but you're going to do a lot of re-designing.

BONE: Knocking down as well ....

DESAI: Possibly making two rooms into one or one room into two, that's true, so – but there is very explicit talk of new architecture now. This is something which will develop and I hope we can play a role in this.

LITTLEJOHNS: This is **World Chronicle**. Our guest is Nitin Desai, Under-Secretary-General for Economic and Social Affairs at the United Nations.

Mr. Desai, bear in mind a few problems that have existed and still exists, as we do this programme, in East Asia. Were these problems discussed during the meeting and if so, did the Members come up with any ideas to solve it?

DESAI: No, I will say that there was an explicit discussion of ideas, but certainly some assessments of the issue in crisis were made by the issuing ministers who were present – remember, Andrew Ibrahim, the Finance Minister of Malaysia and the Finance Minister of Indonesia were both participants yesterday – sorry Saturday – in our meeting. I would say that the jungle assessment that I sense, not just from them but from others was: at least, we are past the worst but that we still have a long way to go before the processes of growth revived in Asia. This is a broad assessment that I got. I think the focus was much more on trying to learn lessons from this crisis and the earlier Mexican crisis and there's much more of a reference to how do we prevent crisis in future. It was also – one thing that struck me was – there's practically nobody there who argued against liberalization. There were nuances on capital market liberalization. One could sense that some people felt, well, one size does not fit all, you must allow countries to pace themselves as they see fit. Some also were not entirely clear as to what is the role of the IMF in this area. As you know, there is a proposal to amend that memorandum of association of the IMF in order to give it a certain role in promoting capital market liberalization. So there were nuances. But I would say on balance basically, nobody argued against rolling the clock back on liberalization.

LITTLEJOHNS: Was there a consensus among the ...

DESAI: I'd say so. I'd say on these issues there was consensus. I think, the real focus on the discussion was, what do we need to do to prevent such crisis in future, which is where the institutional question comes in and the adequacy of the contingency arrangements of monitoring and evaluation arrangements comes in. And second, when such a crisis comes, how do we tackle it so as to minimize the collateral damage on countries which are not part of the crisis which protects vulnerable groups and protects long-term ends and

ensures a degree of symmetry between borrowers and lenders, for instance. How the costs of such crisis are ...

PENKETH: But each time there's a crisis there, even though it takes place in the same environment, the liberalization, it seems to be for different reasons. The Mexican crisis was not caused by the same thing as the Asian crisis that we've just seen. So if you're drawing from lessons from the Asian crisis, how do you know they're going to be the right ones for the next crisis, which is also likely to take everybody by surprise?

DESAI: First, I think, people sense that there are some things which are similar. What I sense from the discussion yesterday was people saying, don't look for reasons and solutions simply in terms of national policies. There are systemic problems. You see, these days, these things were wrong in these countries therefore they face these onslaught by speculators, if you like, or by loss of confidence whichever we used to put it. But their argument is, out there are other countries which go the same policies which take care of this problem. There must be something systemic and I think there is a recognition ... yes there are systemic problems which need to be addressed, not just problems of inadequate national policies. So I'd say that where the commonality may come is in identifying what are the systemic features and I'm not sure we all know. Is the systemic feature in the lack of adequate information or is the big disclosure. One of the arguments which was put forward yesterday was that if you have disclosure standards for national governments, should you not be talking in terms of disclosure for the global players? People talked of contagion. One of the things that happened in the Asian crisis, which did not happen in Mexico, was contagion – crisis spreading from one country to another. Well, can we talk of circuit breakers which prevents contagion? So there are some systemic issues which have to be addressed and I believe that's where the common answers may lie.

BONE: There's really been a sea change of the UN, over the last decade or two, in the attitude of most developing countries towards the free market. I think in the '70s, we had the whole drive for new international economic order, a highly regulated international trade. Now, we have the UN as an institution embracing free markets. Kofi Annan, the UN Secretary-General, recently published a report on Africa in which he prescribed free markets economics integration of the world economy – export-led growth, all the kind of things that maybe 10 or 20 years ago would have been anathema to many self-sufficient Third World Countries like India.

DESAI: I would say that essentially, success sells itself and I think ...

LITTLEJOHNS: You said what?

DESAI: Success sells itself -- that's probably the reason why it's more widely accepted. But I think it's also the widespread recognition in most countries that they cannot just get off the trail of the world because they really have to participate in the processes of globalization. We have young people in our countries who, if we do not become part of the global economy, are just going to abandon it.

BONE: And also that the equation has changed between the rich and the poor countries. Now the poor countries can actually produce t-shirts or running shoes more cheaply than -- and more efficiently than -- people in the rich countries and, therefore, when the people buy those goods in rich countries, the money goes to the people of the poor countries.

DESAI: Yes. I think it's partly because of better capacity to participate in the global economy has increased. I think partly what has happened in the growth -- the nature of the market that has developed in the industrial countries -- has opened up many more possibilities for developing countries for t-shirts, for software, for motorcars, and for a lot of products which the young -- the population -- of these countries demand. I would say that, yes, there is of course the gains from globalization have been very manifest in many of these countries and, as I was telling somebody at the 50th anniversary, I was very interested to find that most of the statements of free trade came from the developing country prime ministers and presidents and most of those who are managed and fair trade came from the industrial country leaders.

LITTLEJOHNS: Mr. Desai, James Bone has mentioned the Secretary-General's report on Africa. You yourself have worked in the private sector as well as in the government and international affairs. The Secretary-General has proposed closer links between the United Nations and the private sector. Do you think that if you have another meeting of this kind, you might bring in people like George Soros, whom James Bone mentioned, and some of the other tycoons? Will they have a useful contribution to make?

DESAI: I would say that as -- what we had on the ECOSOC meeting was an inter-governmental process, but we are hoping to bring people like Soros and the others into a much more direct dialogue with the government representatives who negotiate policies. We've already started that process and I hope that between now and the General Assembly, you will see much more of this. Whether ...

LITTLEJOHNS: Sir, do you think that they might be brought into a future meeting?

DESAI: I'd say the informal meetings, yes and it is -- we are already arranging a few things in the context of the GA. But whether we can move toward something

where in some ways governments and the major players in the global financial system are equal partners in negotiations, well, I think that's something – that's a bigger issue. I am not sure that the answer to that is very clear because what we are talking of is what governments ought to be doing. Actually, when we get to the stage at which we start talking in terms of obligations on the private players, we will certainly have to find ways of bringing them in into the dialogue. At the present stage, we are focussing on what governments ought to be doing through the fiscal and monetary policies.

PENKETH: Yes, because it seems to be almost impossible to think of how you could control the private inflows of capital into countries. How are you planning to tackle that?

DESAI: I'd say that the mechanisms vary if you let – take the Chilean experience. Chile basically use the tax mechanism. They actually put a tax on Chilean entities who borrowed capital abroad. It's a very sophisticated tax. It vary by the term of borrowing, and so on. So it wasn't barrier, but it was a tax and it worked quite well in terms of containing contagion. I mentioned circuit breakers. Well, this is one type of circuit breaker where, if there is a problem in one country, it doesn't sort of spill-over into yours very quickly because there's a circuit breaker which prevents it from moving that quickly. So there are different ways in which this can be done, but there is some recognition now that maybe governments should be a little more cautious particularly on the short-term borrowing.

BONE: There seems to be an awful lot of economic integration among regions ... the Americas are now the latest region to try and establish a Pan-American Free Trade Zone. Europe, of course, is very highly advanced in moving towards a common currency for most countries. How does that influence your work and how do these regional groupings – how are they involved?

DESAI: I would say that this is one of the things which did surface in the meeting – the feeling that we need to address the issue of how the regional dimension could be factored in into these issues. And this is something which we still have to address. We have not worked it out either in trade or in finance, or more generally, in development management. It may be an agenda for a future meeting.

LITTLEJOHNS: Mr. Desai, this idea of the European Union of a foreign currency – the Euro – what impact do you think that may have on the development process?

DESAI: In principle, it shouldn't have an impact. It's essentially a mechanism for a strong macro-economic coordination within Europe. If it leads to the European economy growing more rapidly, if it makes the European public budgets more

manageable, it should essentially generate resources for development. So in principle, I would not expect the Euro to have an adverse effect if it works and the current indications are that it will work. So I look forward to it. But the Euro is a strong macro-coordination mechanism, well beyond what is impossible in other parts of the world.

LITTLEJOHNS: Mr. Desai, we have less than a minute left. Looking at the current international financial economic development situation, what's your general view of it?

DESAI: I would say that basically, the major issues that we have to solve -- one was what we addressed, what the shape of the future financial system of the world; two, the issue about the Euro that you mentioned and regional integration processes that -- we still have not worked that out; and the third is, I think, the necessity of ensuring that we do not forget that all of these is meant to improve people's lives -- that social development, sustainable development are ultimately the real things that we have to work for.

LITTLEJOHNS: So on the whole, would you say that you are an optimist?

DESAI: Absolutely -- believe in the best of all possible worlds.

LITTLEJOHNS: And the best of all possible -- United Nations.

DESAI: Yes.

LITTLEJOHNS: Mr. Desai, thank you for joining us. That's all the time we have and you've been a very interesting guest. Thank you for being with us on this edition of **World Chronicle.**

Our guest has been Nitin Desai, Under-Secretary-General for Economic and Social Affairs at the United Nations. He was interviewed by James Bone of *The Times of London* and Anne Penketh of Agence *France- Presse/AFP.*

I'm Michael Littlejohns. Thank you for joining us. We invite you to be with us for the next edition of **World Chronicle.**